BRIEF | Creating Resilience

Asia Pacific Occupier Trends: Concerns, Priorities and Strategies Ahead

By Ada Choi, Cynthia Chan and Liz Hung

Rising inflation, zero-covid policies in mainland China and ongoing supply chain bottlenecks are just a few of the headwinds that continue to cloud the operating environment for occupiers of commercial real estate in Asia Pacific.

As slowing GDP growth prompts many companies to tighten their belts, CBRE's recent surveys of office, retail and logistics tenants, along with wide-ranging discussions with corporate clients, have uncovered several common themes in how occupiers are adapting and responding to these challenges.

The seven key trends we expect to influence occupier portfolio strategy and leasing demand over the remainder of the year and into 2023 are as follows:

- A mild global recession
- Continued cautious expansion
- Ongoing flight to quality
- Rising fit-out costs
- A shortage of talent
- Building resilience
- Investing in technology

A mild global recession

While several positives and negatives currently exist in the global economy, recessionary factors currently outweigh growth drivers. CBRE expects a mild global recession to occur in 2023, commencing as early as Q4 2022, which should bring inflation down over the course of next year. This would be followed by a return to growth in 2024. While CBRE has revised down its GDP forecast for Asia Pacific and expects the region to continue to experience headwinds in the period through to mid-2023, a recession is unlikely, especially as growth in mainland China is set to recover from this year's low base. Growing economic uncertainty will nevertheless prompt occupiers across all sectors to adopt a more cautious approach to real estate planning.

2023F Asia Pacific GDP (YoY)

+4.1%

Source: CBRE Research, August 2022

Continued cautious expansion

Although recessionary concerns and a more conservative revenue outlook will weigh on corporate investment and expansion in H2 2022 and into next year, cautious expansion will continue to be observed in the coming quarters, even as rents continue to rise. In the office sector, specific functions within the tech sector are poised for further growth, while wealth management and insurance firms will drive financial sector expansion. Retail leasing activity will continue to recover slowly as selected domestic brands return to growth mode, although many international groups will continue to rationalise portfolios. Despite a fall in new industrial and logistics requirements after a phase of aggressive expansion over the past 18 months, expansionary demand from manufacturing occupiers is projected to remain solid.

% of office occupiers wanting to expand over next three years

47%

Source: Spring 2022 Asia Pacific Occupier Survey, CBRE Research, August 2022

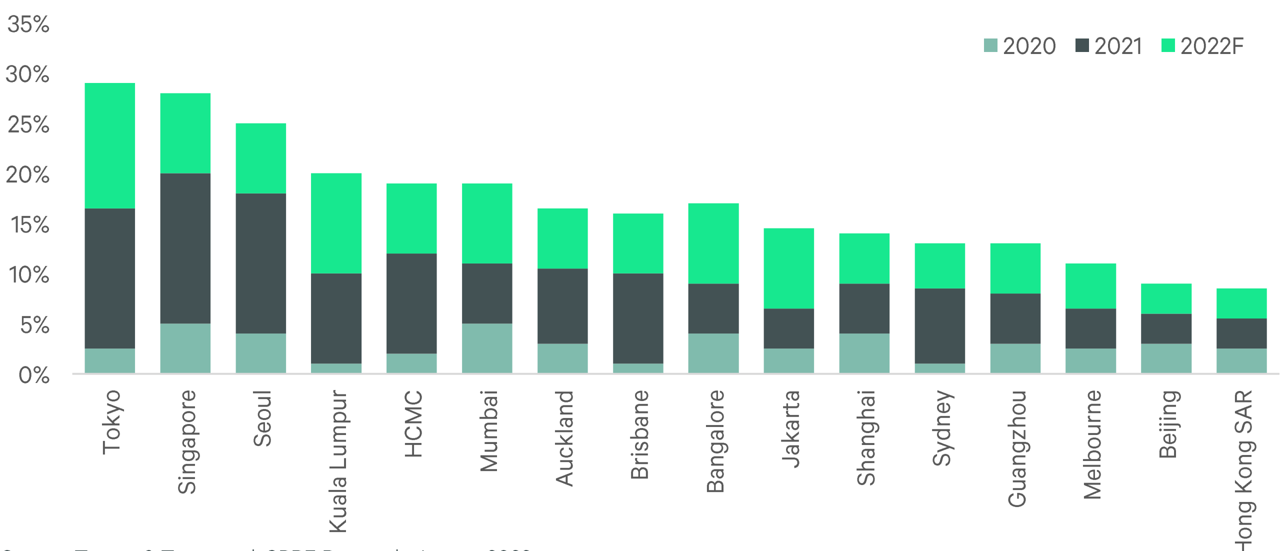
Ongoing flight to quality

CBRE expects to see a steady flow of flight to quality moves, particularly in the office sector, where occupiers are striving to meet employee demand for better workplace experiences, ESG and wellness features. Upgrading will also be a key theme in the retail sector, where retailers in categories such as luxury, athleisure and sporting goods brands are looking to increase their presence in prime areas and are displaying strong demand for units capable of accommodating flagship stores. The logistics sector can expect to see a reasonable volume of flight to quality demand as more occupiers seek modern facilities able to host automation and other new logistics technology.

Rising fit-out costs

Prolonged supply chain disruption and rising inflationary pressure have pushed up prices for materials and labour in Asia Pacific, leading to higher commercial real estate fit-out costs. With this likely to dampen office relocation demand in the coming months, occupiers may opt to renew leases, seek turnkey solutions or commit to fully-fitted or flexible office space as budget approvals become harder to secure. Elevated fit-out costs are also likely to weigh on retail and logistics occupier decision-making in the coming quarters, prompting the former to seek longer fit-out periods or higher incentives, and encouraging the latter to partner with investors on longer-term build-to-suit projects.

Figure 1: Y-O-Y Change in construction costs



Source: Turner & Townsend, CBRE Research, August 2022

A shortage of talent

Across Asia Pacific, a shortage of talent is a common theme in many markets and industries owing to restrictions on global mobility, high attrition among skilled workers and rising hiring and salary costs. Many companies are finding their best employees tempted away by clients or competitors offering substantial salary increases. Along with the adoption of hybrid working models, office occupiers are enhancing workplace design and strengthening their wellness offering to attract and retain employees seeking better workplace experiences. In the retail and logistics sectors, automation is the main route to alleviating the skills shortage.

% of office occupiers intending to adopt hybrid working

58%

% of flexible space in overall real estate portfolios by 2024

17%

Source: Spring 2022 Asia Pacific Occupier Survey, CBRE Research, August 2022

Building resilience

All sectors are exploring ways to enhance resilience as operational challenges mount. Most office occupiers retain the hybrid working models they adopted in response to the pandemic while continuing to strengthen portfolio agility to guard against sudden economic fluctuations. Strategies in the retail sector include the further expansion of omnichannel operations, which has seen more stores being equipped with click-and-collect services or serving as last mile fulfillment hubs. As industrial and logistics occupiers strengthen supply chain resilience by diversifying locations and maintaining a balance between “just-in-time” and “just-in-case” inventory models, new demand for modern warehouses is poised to grow significantly.

% of office occupiers intend to increase tech investment

60%

Source: Spring 2022 Asia Pacific Occupier Survey, CBRE Research, August 2022

Investment in technology

Investing in technology remains a key priority for occupiers across all sectors. For office occupiers, technologies such as enhanced video conferencing and occupancy sensors play a critical role in supporting the adoption of hybrid working models and creating smarter workplaces to provide a better user experience. About 60% of respondents to CBRE’s Spring 2022 Asia Pacific Occupier Survey intend to increase their investment in technology in order to achieve these goals. Retailers continue to invest in inventory and supply-chain management systems to improve the customer experience and enable agility, while logistics occupiers are prioritising the adoption of automation and other smart warehouse technologies.

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